Fenton, Reuben Eaton

The currency and the funding bill

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The Currency and the Funding Bill.

SPEECHES

OF

MR. FENTON, OF NEW YORK,

DELIVERED

IN THE SENATE OF THE UNITED STATES,

JANUARY 25 AND FEBRUARY 24, 1870.

WASHINGTON:
F. & J. RIVES & GEO. A. BAILEY,
REPORTERS AND PRINTERS OF THE DEBATES OF CONGRESS.
1870.

THE CURRENCY.

JANUARY 25, 1870.

The Senate having under consideration the bill to equalize the distribution of the National Currency, and to authorize the establishment of Banks issuing coin notes redeemable in specie—

Mr. FENTON said:

Mr. PRESIDENT: The measure now under consideration naturally brings before us the great financial problem which the country has to solve. We may adopt partial measures like the present, directed to a particular branch of the subject, but they should all be framed upon a broad and comprehensive policy having in view a clear and distinct end. The subject is one of wide scope. It embraces the questions of debt and taxation, of banking and currency, all distinct in their character, yet all interlaced in their influences and bound up together. To some considerations on these mutual relations, but mainly bearing upon the bill before us, I venture to ask the attention of the Senate.

The currency is closely connected with all the varied and multiplied interests of our daily affairs. In all the exchanges of trade, in all the work of production, in the compensations of labor, in every business transaction, it enters as a principal agent. We are sustaining a vast depreciated and inconvertible paper currency. It has had two effects. It has raised prices, and so given an extraordinary impetus to traffic and exchanges, stimulating speculation to a morbid degree and creating a semblance of unusual prosperity. On the other hand, it makes this appearance of prosperity as hollow as it is glittering. It leaves it resting upon no stable foundation. A touch would produce a collapse. By changing nominal values and unsettling natural adjustments this depreciated currency has wrought the most gross and unjust inequalities. Its deep-seated and far-reaching evils cannot be overstated. It takes from men their property, by putting it upon a capricious and changing basis and measuring it by a false standard of value. It withholds from labor its just reward, by paying it in fictitious money, or compels it to resort to higher demands as the only protection from the reduced purchasing power of its compensation. It introduces uncertainty and anxiety into all business operations, wantonly changing contracts, suddenly affecting prices, injuriously taxing all interests, producing violent fluctuations, and building up airy and delusive structures of hope, only to topple them over in disastrous ruin.

But I need not dwell upon the calamity of such a currency. All sound men recognize it and are looking with feverish anxiety for an avenue of escape. The return of the country to a specie basis is generally conceded to be an object of paramount importance. Differ as widely as men may regarding the means, they agree in admitting the necessity of the end. We cannot remain for any protracted period in the present exceptional condition. The nation must either set its face inflexibly in the right direction, or it must go still further in a seductive path until arrested by a tremendous convulsion. In one way or the other it must reach the universal standard of value. The gold basis through resumption, or the gold basis through more violent derangement, if not repudiation, are the alternatives before us. History is full of instances where nations have issued government paper in excessive quantities until it has become depreciated like ours; but history records few cases where such a government currency has been redeemed at par. A fatal tendency almost invariably manifests itself.

To retrace the path toward the safe position from which the nation has departed is difficult and laborious; to go forward in the enticing way is easy and alluring. The hope of securing relief from present wants and pressing evils through a further extension of the currency fastens upon the mind, and the facile suggestion is followed until the result is either the depreciation of the whole expanded volume to worthlessness, or its final redemption at a ruinous discount. The records of France, Russia, and Austria convey impressive warnings upon this point. They have in the past followed this inviting course to this disastrous end. The same sinister influence is perceptible in our own recent history. Eight years ago the issue of inconvertible paper money, based on credit, was universally regarded as a deplorable evil only to be justified by the necessities of war. Five years ago the gradual withdrawal of this paper and the restoration to a sound basis were equally regarded as measures to which the Government must steadily direct itself. To-day, under the corrupting influence of its continued presence, a portion of the people have come to regard it as essential and desirable, and from some quarters we have even a demand for its further expansion.

But if I cannot exaggerate the importance of resumption, neither do I underrate its difficulties. Those who are indifferent to its urgent necessity and those who treat it as easily attainable are alike at fault. Its difficulties are of two kinds: first, a heavy addition to the burdens of the debtor class, and second, a general decline of prices, accompanied by a prostration or greater embarrassment of trade. An addition of a fourth or a fifth to the private indebtedness of the country, such as would ensue if debts contracted in depreciated currency were required to be paid in gold, is too grave a matter to be lightly considered. This individual indebtedness cannot now be less than seven or eight thousand millions, and an increase of a fourth or a fifth would itself nearly equal the whole amount of the national debt. To impose this vast additional burden at once, or within a very short period, upon the debtor class would produce great hardship and distress. Yet delay only enhances the difficulty. Credits are constantly expanding and individual indebtedness is steadily increasing. If it amounts to eight thousand millions this year it will amount to more than eight thousand millions next. Great as is the embarrassment now, it will only become greater with the lapse of time. If the country shrinks from the effort at present, it will recoil with still greater repugnance another year.

The second difficulty is to be found in the decline of prices, which must inevitably accompany resumption. I do not believe the decline will be as great as many suppose, but because they are thus associated, resumption, while working some hardship, is yet desirable. Until prices are reduced to their natural and normal standard, until trade returns to its proper channel, until the morbid rage of speculation is subdued, until the constantly ebbing tide of foreign obligation is arrested, until industry and production receive their sober stimulus, there will be no stability in the national finances and no stability in domestic business. Undoubtedly the return to this condition will be accompanied by hardships. There are also compensations; at least the reductions in some measure balance each other. If prices decline, so in part does the cost of living. If the merchant loses in what he sells, he gains in what he buys.

But beyond all this, if we are right in our estimate of the vast evils of a depreciated and inconvertible currency, it follows that the embarrassments which will mark a return to the sound basis are insignificant compared with those which will surely mark a continuance of affairs as they now confront us. There should be no sweeping and violent change; the process should be gradual and guarded, that business men may calculate upon the future and engagements may be entered into without the danger of overwhelming those who make them. True, a moderate shrinkage will tend to paralyze; but better such a compression upon the system than a sudden convulsion which will rend it in pieces and prostrate it in ruin. England was six years after the Napoleonic wars, and with a currency far less depreciated than ours, in returning to specie payments. Indeed, when in 1819 the actual measure of resumption embodied in Peel's celebrated currency bill was passed, although the currency was down only four and a half per cent., yet three years were allowed for the accomplishment of resumption, and two years were actually consumed in the process. In the face of such experience we cannot hope to leap a chasm of twenty per cent. in a few months.

In considering the method of resumption it is important at the outset to establish right principles in order to fix upon specific measures. Unless the latter are based upon the former they are worse than useless. The determination of the amount of currency required by the business of the country is not the real question to be decided. The real question is, what are the conditions upon which specie payments can be restored and maintained? Into the discussion as to whether the country needs more or less currency I do not propose to enter, because it would bring us no nearer the end. If any one tells me we have none too much currency for the requirements of business, I fully concur that we have none too much at present prices. If any one tells me we ought to have twice as much currency, I fully concur that twice as much would not be too large a sum for the conditions which would

then exist. If any one tells me we ought to have less currency, I fully concur that less currency would suffice, with the fall of prices which would accompany the reduction of volume.

In one sense there never can be a redundancy of currency, for prices adjust themselves to the amount, and the more there is issued the more there is needed to make exchanges. The value of the circulation is regulated by the volume. Under the natural laws of distribution, which apply all over the world, a certain quantity falls to our lot, and the amount we have, whether nominally greater or less, will be equivalent in actual value to that quantity. In 1860 the currency of the United States, including the specie reserve, was less than $300,000,000, and no one claimed that there was not enough. To-day the currency amounts to $700,000,000, and it is fairly claimed that on the present basis there is none too much. There is no arbitrary law of amount. The sum required is determined by the relation of the currency to the exchanges it facilitates, and this relation is again determined by its value. If we have none too much currency at its present value, will any one claim that we should still have none too much if its value could be appreciated eighteen or twenty per cent.? In other words, will it be claimed that we need a fifth more than we now possess, or, that if the currency could be improved in value, thus producing a decline in prices, we should still need the present volume?

The proposition may be stated in another form. Our currency is now worth, say, eighty-three cents on the dollar. If we need $700,000,000 worth eighty-three cents on the dollar is it possible to believe that we should need $700,000,000 worth a hundred cents on the dollar? It is a fallacy to suppose that the depreciation of our currency is due solely to its irredeemability, and not at all to its excess. In this connection I will make use of a paragraph from Perry's Political Economy as pertinent to this matter. Referring to the period of suspension in England, he says:

> "The earlier period of suspension proves this important point: that when a Government possesses a monopoly of issuing paper money, and carefully limits the quantity issued, and both receives it and pays it out as legal tender, it may keep an inconvertible paper at par, and even by sufficiently limiting its quantity carry it above par."

But it is said by some that the rate of interest determines the amount of currency required, and that because a high rate of interest now prevails a larger volume of currency is demanded. No reasoning could be more specious nor more unsound. Strange as it may seem, the history of the country more generally shows that the rate of interest is highest when the volume of circulation is largest, and lowest when the volume of circulation is smallest. In other words, though it appears like a paradox, money is oftener cheap and plenty when it is limited, and dear and scarce when it is excessive. In 1836, just before the great convulsion, and when the volume of currency was larger than it had ever been in our country up to that time, the rate of interest rose as high as thirty per cent. So in 1857, when the circulation was again greatly expanded, the rate of interest rose to even higher figures. On the other hand, in 1840, when after the panic the circulation had been greatly reduced, interest was down to five per cent.; and in 1858, when the volume had again diminished, the rate was even less than five per cent.

Undoubtedly other disturbing causes may enter and affect the fluctuations, but the records of our financial history for the past forty years show a remarkable coincidence between the volume of the currency and the rate of interest. Nor need we search far to find the philosophy of this law. When the currency is expanded prices are raised, speculation is invariably and inordinately stimulated, and there is an unusual demand for money. When, on the contrary, the currency is contained within its natural and proper limits, speculation is checked, money is not diverted from its legitimate channels, and the demand does not exceed the supply. It is not surprising that while an expanded currency is in process of recession that the interest rate should be temporarily increased, for men are compelled to meet their indebtedness at a sacrifice, and a new pressure is created. In our own case there is another important element to be considered. The Government is paying a high rate of interest upon its own loans, and individual loans are largely regulated by it. From these particular facts and general considerations, it will be apparent that the prevailing rate of interest is no evidence whatever of the inadequacy of our circulation.

I shall make no attempt, as I have already stated, to determine the exact amount of currency required by the country. Once started upon the right basis, this problem will solve itself. It is important, then, to ascertain if we can, how we can make our paper currency and gold equivalent; how we can secure the necessary proportion between the amount of gold we can command and the amount of currency it is to make redeemable, and how we shall hold the gold which is essential to the maintenance of the specie basis. The bill under consideration does not retard in any material respect, and I regret to say does not tend to advance this most desirable result. The three per cents. are, indeed, equivalent to so much currency; but it will be seen in practice that while there has been simply an exchange of one form for another, the $45,000,000 of notes will be found far more difficult to get rid of than the same amount of certificates.

There is no difficulty in the currency question save that which grows out of its appreciation,

with the consequent decline of prices and increase of nominal indebtedness. How does the community, let me inquire, feel an increase or decrease of the currency? Simply in the depreciation or appreciation of values; simply in the rise or the decline of prices, and in the consequences flowing from the one or the other. Neither contraction nor inflation is felt in the mere operation itself. It is felt only in its effects; and if those effects could be accomplished in any other way the influences and results would be precisely the same. During the past few years our gold and gold bonds have been steadily flowing abroad. In the last year alone over thirty-seven millions of specie and bullion, independent of interest obligations, have been exported, as shown by Commissioner Wells. Could it be otherwise? Could the precious metals possess a higher value elsewhere and yet remain here? We may well turn to the significant lessons of history upon this point.

In 1816, after the Bank of the United States was rechartered, it rapidly and improvidently expanded its circulation. In a single month its discounts increased from three to twenty millions. The result of this management was that prices rose, speculation greatly increased, and, in the language of the history which describes the event, gold left the country in ship-loads. We had cheapened gold, and being the common standard of the world, tending to equalize itself everywhere, and passing readily from one nation to another, it flowed, by an irresistible law to lands where for the time it possessed a higher value, and it kept flowing until a change of condition arrested the tide. The same fact has been repeated several times within the recollection of many Senators who honor me with their attention.

The history of other nations furnishes illustrations no less striking and suggestive. During the prolonged suspension of specie payments in England, at the beginning of the present century, the paper currency was largely augmented in volume. The country banks, which numbered two hundred and ten in 1799 had increased to nearly a thousand in 1814. The Bank of England, also, had greatly enlarged its own circulation. In 1816, however, many of the banks failed, and the volume of currency was reduced to nearly half the amount of 1814. Corresponding to this the premium on gold declined from thirty per cent. to less than two per cent., though it rose the next year to full two and a half. What I desire to show, Mr. President, is that even upon this small premium, or, in other words, upon a slight depreciation of the paper currency, the tendency of gold was to flow away from the country, and a transaction of that very year supplies a most forcible illustration. In 1817 the bank, though the suspension continued, paid out several millions of gold upon voluntary obligations. But this gold had no effect whatever in improving the general condition; on the contrary, it speedily departed from the country, and Robert Peel, in referring to the subject at a late day, said:

"The issue of that treasure had not been attended with any good to the nation, and he thought indeed it might have been foreseen that unless this issue had been accompanied by a simultaneous reduction of bank notes the gold would find its way to those places where there was a greater demand for it."

It seems to me that these words are strikingly applicable to the situation in which our nation is to-day.

It can hardly fail to be of interest and value to trace the history of those times a little further, since they bear an obvious analogy to these in which we live. As before stated, there was a large reduction of the circulation in 1816. Thereafter its depreciation was exceedingly small, averaging scarcely more than three per cent. Yet, in order to overcome even this slight barrier without creating disturbances, the great currency measure of 1819 allowed three years for the resumption of specie payment. Between 1814 and 1822 $215,000,000 of currency (reduced to dollars) had been withdrawn from circulation. The period of resumption was signal of hardship, as was to be expected, though the convulsion usually associated with this event did not occur until 1825, and may be traced to an entirely different cause. The undue stringency and suffering of 1822 were the result of a disproportionate and over-rapid contraction.

I take the liberty to append a table showing the circulation of the Bank of England from 1797 to 1823, inclusive, which sheds additional light upon this branch of the discussion. It has been made up from various sources, and in one or two points is incomplete.

By a provision of the law, the effect of which had not been clearly studied, all notes under the denomination of five pounds were retired from circulation. Now, in 1819, as will be seen, when the law was passed, £7,354,230, or nearly a third of the entire circulation of the Bank of England, which was then £25,126,700, consisted of notes under the denomination of five pounds. The proportion of small notes in the circulation of the country banks was probably still larger, though I have found no exact statement of the case. Thus it is that in February, 1822, the aggregate circulation of the Bank of England had fallen to £18,665,350, a reduction of nearly seven million pounds, or $35,000,000. The cancellations of the country banks were no doubt in proportion.

I conclude, then, that the reduction, under the constraint of the misjudged provisions to which I have referred, was far greater than was required to overcome the small depreciation of four and a half per cent., and it was this severe contraction that chiefly caused the distress of 1822. But in that very year, when the difficulty was partly realized, the country banks

were authorized to renew the issue of notes under five pounds, and at once the currency began to expand. By 1825 it had increased fully fifty per cent. I need not speak of the consequences, as we have the same unvarying story,—a reckless rage of bubble speculation, a large surplus even in manufacturing England of imported goods; a rapid flow of gold abroad, all culminating in the memorable disasters of 1825, not by the return to specie payments, but by a violent departure from the principles upon which resumption had been effected.

The record which I have thus hastily presented to your attention suggests two or three points of vital importance. In the first place it illustrates the law of relation between the volume and the value of currency, and equally the point more immediately involved in the discussion, of the impossibility of retaining gold upon a redundant currency. I have referred also to the fact that an adverse balance of trade always attends such a condition. The latter point is deserving special consideration as having an important bearing in our own case upon the question of resumption. The Secretary of the Treasury justly urges that a favorable balance of trade, a state in which our exports, exclusive of public securities, shall be equal to our imports, is essential to a return to specie payments.

The good effect of increasing the cotton crops, to say nothing of others, is obvious in this connection. But in view of the facts already stated, the question recurs whether, after all, resumption instead of being the effect of a favorable balance, is not itself the necessary prerequisite to that condition. Should it not be said that it is the derangement of our currency that deranges our trade? Is it not the depreciation of our currency, with its consequent inflation of prices, that makes our country a poor market to buy in but a good market to sell in? And if this is true must not the adjustment of the currency necessarily precede the adjustment of trade? It seems to me if we wait for the former until we secure the latter we shall wait an indefinite period. Our excessive importations need not surprise us, for they naturally follow increase of currency. Permit me, Mr. President, to allude to the coincident increase in the two most notable periods of expansion in our history. I say nothing of the bearings of the tariff, because it does not touch this point; and in the amount of currency as given I embrace both the circulation and deposits, as is obviously just:

Year.	*Amount of currency.*	*Amount of imports.*
1835	$186,000,000	$149,895,742
1836	255,000,000	189,980,035
1837	276,000,000	140,989,217
1838	200,000,000	113,717,404
1855	377,000,000	261,468,520
1856	408,000,000	314,639,942
1857	445,000,000	360,890,141
1858	341,000,000	282,613,150

The affinity observable in this table is broken, as will be seen, only in a single instance, and that is capable of a special explanation. If we were to examine the statistics of export for the same periods, we should perceive a corresponding tendency to decline, though not as uniform as the increase of imports nor as marked when the whole volume of the currency, including gold and paper, is depreciated, as when the paper alone is depreciated, marked by premium on gold, as is now the case. The operation of this law has been apparent during the past few years. Having an inadequate supply of gold to meet the adverse balance, we have been supplementing it with our national bonds, until now nearly or quite a thousand millions are owned abroad, requiring a large installment of gold to pay the annual interest. And still the demand continues and still it must continue in greater or less degree so long as our present disorders remain.

But, Mr. President, we are told that there are sections largely interested in maintaining the present order of things; that there are sections even which require an addition to the currency volume, and insist that it will not retard a healthy movement toward the desired end. I cannot admit it. Wherever the idea prevails it is a fatal delusion. The true interests of all classes demand that we shall escape from the evils of the hour, and the still greater dangers which menace expansion, and no portion more than the agricultural element of our population. It enjoys less of the benefits and experiences more of the injury incident to such a situation than any other. Through all the fluctuations of our currency before the war, when general prices rose, those of wheat and cotton invariably exhibited a smaller ratio of increase than any others. In other words, the producers paid proportionately more for what they bought, and received proportionately less for what they sold. The reason may be stated in a word. These were the great articles of export. They came in competition with foreign products in foreign markets. Their price, therefore, was regulated by the common standard of value in the commercial world, which was lower than the special standard of value created in our own country by an expanded currency. Hence they were relatively lower than other domestic articles. The same general effect is seen in the case now before us. It is true gold and paper are not now kept side by side, paper being depreciated as compared with gold. But gold itself, notwithstanding its premium, is really cheaper than other commodities, and wheat, therefore, which follows gold more closely than any other prominent article, is relatively cheaper than any other. But the proof is not limited to these later years; the disparity exists whenever and wherever there are currency disorders, and hence the argument of the producers

in favor of the earliest practicable escape from a situation prejudicial to them now, and which would become more intolerable by fostering the cause which created it.

Now, Mr. President, I come to another argument which requires a moment's consideration in this connection. In some quarters, where the present currency difficulties are recognized, it is suggested that they will disappear with the development of trade and production; in other words, that the wants of the country will soon grow up even to the plethora of the present supply. This idea has plausibility and something of fact; but, after all, it is based upon a fundamental misconception of the character and purposes of money. The circulating medium of a country bears no such relation to its wealth and business that it needs to expand in the same proportion. The circulation of the Bank of England was less in 1865 than in 1845. The aggregate circulation of Scotland has diminished since 1826, though for a long time it was absolutely unlimited by law and intelligently regulated only by self-interest. The total bank circulation of Great Britain, as shown by the letters of Mr. George Walker, in 1868 was actually less by two millions in that year than in 1844, though in the mean time the wealth of the United Kingdom had doubled. Money is not needed or wanted for its own sake. Apart from being the standard of value, its great purpose is to serve as the medium of exchange, as the instrument with which transfers are made and indebtedness discharged. It is true, civilization brings numerous other agencies into play as substitutes for money in this capacity. Deposits, checks, drafts, and other banking instrumentalities are thus employed, while the vast modern increase in the rapidity and extent of internal communication enables the same volume of circulation to effect a far larger number of transactions.

The second part of the bill under consideration—that which provides for new banks with specie notes and specie redemption—is much more serious if designed to take effect as a present practical measure. The principle is sound, but if it is worth much for immediate application it should be applied to the whole bank system and the impracticability of this is apparent. The proposed notes would of course be convertible into gold and equivalent to gold. It would therefore be impossible to keep them in circulation, except it may be on the Pacific side, where gold is now used as the circulating medium. Gold, still at a premium as compared with the general currency of the country, would still be a commodity and still subject to speculation. The specie notes would simply be used to draw out the gold gathered in those banks redeeming in specie. We might as well attempt to drive into general circulation the gold now occasionally sold from the Treasury. We cannot keep a note worth eighty cents and another worth a hundred cents, both denominated a dollar, promiscuously circulating. It cannot be answered that the difference in value will be recognized by the community, and that business will adjust itself to the particular medium in which it is conducted, for the same difference of value exists now between paper and gold, and it does not bring the latter into circulation.

History does not furnish an instance where two unequal currencies have been maintained side by side. On the contrary, from the time of the clipped coins of Amsterdam down to the present, whenever by law or by other operations two currencies of different values have been established, the one of greater value has invariably retired from the field. Two pertinent illustrations in our own experience come to my mind. The law establishing the Mint, rated one ounce of gold as worth fifteen ounces of silver and regulated the coinage on this basis. But an ounce of gold was worth more than fifteen ounces of silver; and, notwithstanding over five millions of gold were coined, scarcely any of it could be kept in our domestic circulation. It was used to pay balances abroad where it was worth more, or melted into bullion, which possessed greater value than the coin. When the law was changed to remedy the difficulty this singular result was seen: an ounce of gold was now rated at sixteen ounces of silver, and it turned out as the former valuation was two low, the latter was as much too high, and the difficulty was not removed, but only reversed. Instead of gold it was now silver which could not be kept in domestic circulation and which steadily flowed abroad. It was only when another modification of the law fixed the true relation between the two metallic coinages that the proper equilibrium was restored and preserved.

I need not dwell upon this matter. The fact that two unequal currencies cannot be kept in the same business intercourse, is supported by the experience of mankind and the plainest principles of political economy. Gold contracts, there may and ought to be, based upon specie values. This would now seem to be safe under the decision of the courts, though the small extent to which it is used shows the wonderful tendency to follow the common measure. I do not, however, see any grave objection to this feature of the bill becoming a law. If I am correct in my views it would simply be unused if the privilege was accorded. I see no possibility of a currency equivalent to gold except by lifting our present currency to par with gold. When this is done, as it may be and I hope will be, the authority conferred by the measure can well be put to more general use, and indeed may be properly made the foundation in practice, as well as the theory of our whole banking system.

One more suggestion and I have done. The West and the South ask for a larger proportion of the circulation. For one I am most willing, provided it be accompanied by no expansion. I do not speak of a reduction of the volume, for, however desirable and however important in the work of resumption, it is not to be found in this bill, if indeed it shall be in any which receives the assent of Congress. How much larger proportion they, the South and West, would absorb if it were directly given to these districts is a matter of uncertainty. The uniform currency of a country tends to distribute itself throughout the different sections according to the same natural laws which I have already noticed, each taking a share proportioned to its trade and demands. Upon this principle, though it may not rigorously apply to our large domain and diversified interests, any increase, from whatever locality, is not necessarily held in a particular district, but diffuses itself in accordance with the requirements of trade and the demands of business. I appreciate, however, the argument that the more sparsely-settled and less wealthy districts of country ought to have at least a proportionate share of actual currency, because they have less of the substitutes which come with advanced society.

If, then, it is still insisted that this will only take place by the establishment of banks in these localities it should be done in such a way, as I before remarked, as will not operate to increase the present volume. I should prefer, nevertheless, desiring to curtail instead of to extend, with a view to early resumption, that this claim should not be urged. If a system of banking based upon the proposed new securities or consols, entirely free, with only such restrictions as are essential to absolute security and to make every note redeemable in gold, is adopted, then every section, as we reach the specie basis, can have the amount of currency it needs and can provide for. In the mean time it is my desire that we should hold as nearly as possible to those just and salutary maxims the observance of which is more than ever important in a period of derangement like the present.

I see little in this bill to aggravate the evils of the hour. In view of the Secretary's plan for funding the debt and furnishing the new bond for banking purposes in place of the old, it may be the best we can hope to get. At all events I come forward with no pet measure of my own. The difference is not so much regarding specific measures as upon the general principles involved; and for this reason I have been led as I proceeded with the discussion, to dwell rather upon the latter than upon the former. In these principles, the interests of all classes and sections are practically identical, and as under the guidance of loftiest patriotism we emerged from the dark shadows of war, so under the direction of highest duty we shall emerge from the great evils of our present financial disorder.

Table showing the circulation of the Bank of England from 1797 to 1823 inclusive.

Years.	Notes of five pounds and upward.	Notes under five pounds.	Total.	Premium on gold.
1797	£10,095,620	£1,096,100	£11,191,720	-
1798	11,527,250	1,807,502	13,334,752	-
1799	12,408,522	1,653,805	14,062,327	-
1800	13,598,666	2,243,246	158,41,932	-
1801	13,454,367	2,715,182	16,169,594	-
1802	13,917,977	3,136,477	17,054,454	-
1803	12,983,477	3,864,045	16,847,522	-
1804	12,621,348	4,723,672	17,345,020	-
1805	12,697,352	4,544,580	17,241,932	-
1806	12,844,170	4,291,230	17,135,400	-
1807	13,221,988	4,183,013	17,405,001	-
1808	13,402,160	4,132,420	17,534,580	-
1809	14,133,615	4,868,275	19,001,890	16½
1810	16,085,522	6,644,763	22,730,285	9 1-10
1811	16,286,950	7,260,575	23,547,525	24½
1812	15,862,120	7,600,000	23,462,120	30 and 38½
1813	16,057,000	8,030,000	24,087,000	36 1-10 and 41.
1814	18,540,780	9,300,000	27.840,780	30½
1815	18,157,956	9,161,454	27,319,410	18 8-9
1816	-	-	-	2½ and less than 1.
1817	-	-	27,397,900	2½
1818	-	-	27,770,970	5½
1819	17,772,470	7,354,230	25,126,700	6½ and 4½
1820	16,794,980	6,689.130	23,484,110	-
1821	17,447,360	6,437,560	23,884,920	-
1822	17,290,500	1,394,850	18,665,350	-
1823	17,710,740	681,500	18,392,240	-

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THE FUNDING BILL.

FEBRUARY 24, 1870.

Mr. FENTON. Mr. President, upon the soundest maxims of finance a bill for the refunding of the public debt would naturally seem to follow instead of precede the appreciation of the public credit. Strictly speaking, public credit is more properly the cause than the effect. It is one of the vital forces of the State. Great material resources are the first and most obvious elements of strength; but the subtile and sensitive power of public credit is hardly less essential. In our modern system it cannot be overestimated. No nation can be exempt from the necessity of borrowing. The triumphs of modern skill and the methods of modern warfare require the ability to compress vast efforts into brief years, while distributing the compensation over extended periods. Whether at such a time the nation can borrow may be a test of its continued existence.

Looking to our own country, I trust that it has entered upon a long epoch of unbroken peace; yet it would be the depth of folly, presuming upon this happy prospect, to remain blind or indifferent to the possibilities of the future. But whether undisturbed tranquillity or the fortune of occasional strife be our lot, our duty is still the same. Public credit is no less essential in peace than in war. That it may exist in war, it must exist in peace. It is an important factor in every financial operation of the Government. In the management of the debt, in the regulation of the rates of interest, in every scheme of funding, it lies at the very basis. In peace, it is a question of an annual saving of millions; in war, it is a question of saving the nation itself without ruinous sacrifices and exactions.

The importance of preserving a high degree of public credit is written in the histories around us. Great Britain pays but three per cent. interest, because her credit is untarnished, because she faithfully fulfills every obligation. The United States Government toward the close of Mr. Buchanan's administration could hardly borrow at twelve per cent., because its credit was greatly impaired. After the war of the Revolution the debt of Massachusetts sold at twelve and a half cents on the dollar, but the State honorably discharged this debt in full, and always having paid in gold, it has long been able, until recently, to borrow at less than four per cent. Now, mark the contrast. We are to-day paying six per cent. interest on the greater part of our national debt. If our public credit were what it ought to be, if the faith of the world in our honor and honesty were such as we may well desire to create and justify, there would remain no question about the immediate and rapid conversion of our debt into four or four and a half per cent. securities. Public credit depends not alone upon the promise to pay, but alike upon a general belief that the word is as good as the deed. The spirit of those who are its guardians has an influence no less than their positive action. When the old Confederation of thirteen States was converted into a solid national Government, the credit of the Union rapidly advanced. Within a year the market value of its securities rose nearly a hundred per cent., the result not of special legislation but of increased faith. It is true that the disposition to pay is no less essential than the ability to pay. In our own case the ability to pay is not questioned. The

possession of ample resources is apparent. The growing wealth of the country, its vast districts of yet unsettled territory, its inexhaustible mineral stores, in a word, the already augmented wealth of the nation, amounting to ten times the aggregate of the debt, and the incalculable enrichment of the future, establish the question of ability beyond a doubt. Public credit and public faith are thus intimately and inseparably associated.

While, therefore, the refunding of the debt upon the most advantageous terms would follow an improvement of the credit, it is nevertheless true that the provisions of a funding bill, if they shall not immediately accomplish the result, may yet promote the condition upon which the result must largely be based. I should prefer in place of the first three sections of the bill before us, and hope it may be deemed wisest by the Senate, to authorize a single bond at four and a half per cent., in accordance with the amendment I propose to offer, not taxable by Federal, State, or local authority, payable in forty years. The sum may be one thousand or twelve hundred millions, and there would remain in the five-twenties, still to be provided for, a sufficient margin for the absorption of the surplus revenues, until their complete extinguishment would enable us to enter upon the payment of the ten-forties. The authority to fund the United States legal tenders in the new bond, in the discretion of the Secretary, thus providing for gradual contraction, should be adhered to as a fundamental proposition, whatever the modification of the bill in other respects.

It cannot be properly urged against the plan to extend the time for payment of the new bond that we may be in a situation to pay in the mean time, and could only reach this debt by going into the market and paying whatever the holders should demand. To such an argument it may be answered, in the first place, that the premium would be regulated by the laws of value, and these securities could not be forced, except for brief and exceptional periods, above their true relation to trade and exchanges. Secondly, even if we could now foresee such an appreciation or rise in the market, we ought rather to regard it with satisfaction, as indicating the very strength and credit of the Government which we desire to promote.

It is hardly too much to assume that, if the new loan is not so ordered in point of time and rate of interest as to fulfill this very purpose, the national securities will continue to be unstable and fluctuating, thus failing to improve the public confidence and protracting an incidental evil which deserves, in this connection, a moment's attention. Instead of serving the uses of money, by passing at current and well-regulated rates from one to another or securely held as permanent investments, they will actually seek the market inopportunely and contribute to the scarcity of money. They become the object of speculation, which the complications arising from varying rates of interest and different periods of payment serve to encourage; and the means thus employed are diverted from the channels of legitimate industry and enterprise. Those who complain of the scarcity of money may not have reflected, that the present character of our national securities invite speculation by reason of this instability, and contributes to the very condition which they deplore. The evils from this source, to which we are now subjected, will no doubt follow in some degree any loan having approximate character in its triplicate rates of interest and time of payment, and may far exceed any losses to the Government which might possibly accrue from a single long bond of more uniform value, upon the supposition that it would temporarily command a premium should the Government desire to anticipate to any extent the period of payment.

The refunding the debt at a lower rate of interest and its adjustment upon a secure basis, commanding general confidence and insuring steadiness of value, is therefore an object of great and undoubted importance. In all that the President and the Secretary of the Treasury urge in support of its necessity I fully concur. Its advantages are obvious and far-reaching; they need no elaborate statement. But I cannot regard the present rate of taxation either as essential to the accomplishment of that object, or as justifiable in itself. The Government is bound to guard with faithful vigilance and unfailing care, the interests of the people. It is bound to relieve them from the excessive burdens they sustain whenever it can do so without hazarding greater objects. For the last eight years the country has endured a constant and exhausting strain. It has put forth the most unparalleled exertions in war and in finance. It has raised vast revenues and has entered upon a reduction of the debt unexampled in its rapidity and its extent. It has willingly accepted and freely answered the demands of a high degree of taxation.

These extraordinary efforts have not been put forth without entailing sacrifices and hardships; but thus far, independent of the matchless grandeur of the results, the country has had some compensations which have made the burdens of taxation less perceptible and less oppressive. It has had the buoyancy of an expanded currency, and the hollow but elastic vitality which comes from fictitious values and stimulated enterprise. It has been following the attractive and alluring course which ends in diseased financial condition. Now comes the painful recovery. The country has reached a point where it must devote itself with assid-

uous care and with the most prudent and sagacious skill, to the restoration to a sound and healthy state. Guide it skillfully and wisely as we may, this process of recovery is still toilsome and difficult. Business already feels the change, and has lost something of the tensile life and activity which have marked its course during the past few years. Industry is crippled, commerce is partially paralyzed, and the great mercantile interest checks its busy operations in anxious concern about the future. All this is the inevitable sequence of the unnatural and morbid condition through which we have been passing.

Under such circumstances it is not to be expected that the country can sustain with equal ease, or equal patience, the same burdens of taxation which it has thus far cheerfully borne. It must be remembered that increased taxation is but a part of the increased expense of living, and that even the largest reduction of taxation will still leave a part untouched. General prices fall as we return to the normal condition; yet there are elements in the abnormal cost of living which but slowly follow the general tendency. To leave taxation undiminished in such a case would be alike unwise and unjust. Take the great agricultural interest. History teaches a practical lesson on this point. At the beginning of the century England passed through a gigantic war, as we have just done. Prices were greatly enhanced, heavy taxation was imposed, and a state of affairs was produced similar to that which our country is now experiencing. In 1835, twenty years after the war had closed, nearly fifteen years even after specie payment had been resumed, and even when taxation had been somewhat reduced, it was shown by careful computation that the net expenses of cultivating the land, were more than the total expenses, including rent, in 1790, before the war; yet, in 1835, the price of wheat was less than in 1790.

What, let me inquire, was the significance of these facts? They signified that the income of the English farmer or producer was less and his outlay greater in 1835 than in 1790. They demonstrate that, at the best, the changed conditions growing largely out of the war placed him at a great disadvantage at the later period as compared with the earlier. They taught the lesson that as a partial compensation for these disadvantages, and in order to save the agricultural interest from grave disaster, it was the duty of the Government to relieve the burden as far as practicable by reducing taxation to the lowest possible limit consistent with other obligations. We may not witness the exact reproduction of the case in our own land, but we shall surely see a condition to which it bears a general analogy, and which will teach the same lesson. While prices are falling and receipts are diminishing, there are elements in the account of production and expenditure which have grown with the war, but which will be slow to follow the general decline. In all such cases, especially, hardship must ensue. Taxation itself is one of these elements, but happily one which is within the control of the Government. There are others over which it can exercise no control, regulated by the laws of economy and other influences, and which will rest upon the entire agricultural and business interest. Their effect is to prevent the cost of living from declining in the same ratio as profits. There is one consideration alone which, it seems to me, ought to be conclusive on this point. All taxes must be paid either from capital or from income, and it is a sound maxim that taxation should never be laid in such a way as to encroach on capital, or, in other words, upon the solid basis of future production. It should not trench upon the capital value of property, but only upon its revenue. It should only be drawn from annual gains. While trade is partially stagnant and all activities are somewhat dormant, to maintain the same high degree of taxation would entail the most serious hardships.

There is another important consideration bearing upon this matter. If we make any progress toward a sound financial condition it will be accompanied by an appreciation of the currency. Such an appreciation is itself evidence of progress in this direction. But, after all, this is practically an increase of taxation. Taxes will then be paid in currency which has increased in value and which possesses greater purchasing power. For example, the premium on gold has declined about ten per cent. in the past year, or, in other words, the currency has appreciated nearly ten per cent. Now, the receipts from internal revenue for the last fiscal year were in round numbers $160,000,000, and if we suppose the currency to have appreciated ten per cent. we practically increase the taxation to the extent of $16,000,000. Thus, if we suffer the law to remain unchanged, we actually augment the burdens of the people, and to retain the same virtual taxation we must decrease the nominal rate. For my own part I would go still further. Believing as I do that the interests of the people demand a positive reduction, and that the interests of the Government are identical with those of the people, I would diminish not only the nominal, but the virtual rate of taxation.

For the same reason the system should be simplified. Taxation may be oppressive in two ways: first, by its weight, and second, by its method. The true policy of taxation applies it to few sources, and selects those sources pertaining to the luxuries, rather than to the necessaries, of life. It touches as lightly as possible the individual requirements of the people. It makes as little demand as possible upon the productive forces. "They are all more or less

unthrifty taxes," says Adam Smith, "that increase the revenue of the sovereign, which seldom maintains any but unproductive laborers, at the expense of the capital of the people, which maintains none but productive." Without stopping to elaborate a statement which now receives universal assent, I only urge that as a part of the general policy on this subject, the greatest degree of simplification should be enforced, and the items of taxation which are more vexatious in their character than profitable in their results, should be entirely removed. Taxation should be lightened in both ways. No objects to be gained by maintaining a high rate can compensate for its inseparable evils. Even the rapid extinction of the debt furnishes no sufficient recompense and contains a measure of injustice. I would pay $50,000,000 a year, but beyond that I would not go. The growth of every year reduces the burden by developing more ample means of payment. The lapse of time secures greater equity in its distribution by imposing a part of it upon another generation, which shares equally with ourselves the benefits it purchased. Nor can so rapid an extinguishment of the debt be essential to the establishment of the public credit. Other elements equally important in this aspect of the question, and more important in other aspects, enter into the case. It is not less desirable, even with reference to the public credit, that the people should not be restive under grievous taxation. It is not less essential that a sound monetary condition shall be restored upon which the national finances can repose. Show to the world that we understand the real condition of healthy life; show to the world that in spite of all seductive influences we have the spirit and the purpose to cultivate them, and we shall borrow without difficulty upon more favorable terms and refund without embarrassment at a lower rate.

Much as we may choose to separate the elements of the financial problem and deal with them singly, there is a connection and mutual dedendence between them. Neither can be adequately treated without more or less considering the bearings of all. Although the debt, taxation, and the currency are distinct in their character, their relations are involved together. The refunding of the debt turns in some measure upon the currency; the reform of the currency is connected in some degree with the adjustment of the debt; the question of banking is blended with both. In legislating upon one subject it is important to bear in mind its relations to the rest. The successful refunding of the debt upon the best terms requires a healthy monetary basis. I do not say that it cannot be placed at a lower rate now; but it is obvious that if we were resting upon a specie foundation more favorable terms could be secured. The confidence of intelligent capitalists and financiers depends not only upon a perception of our ability to pay, but upon a recognition of that sound financial condition which is not liable to be thrown into violent convulsion or panic by any light or temporary shock. The dangers of our present situation lie not so much in the debt as in the disorders of the currency; to this we can trace most of the evils which menace us. If it were corrected it would clearly increase the confidence and sense of security which have so much to do with the disposition of lenders.

If I could agree with the distinguished Senator from Indiana, [Mr. MORTON] I should see comparatively little difficulty in the work before us. In following my remarks upon the currency bill that Senator held, as he had on former occasions maintained, that the country has none too much currency. It will be remembered that I had admitted this upon the assumption that the present abnormal order of things was to continue indefinitely. But as he unites with me in desiring the restoration of the gold basis, I must assume that he means we have none too much currency for the resumption and maintenance of specie payments. If this were true the gravest difficulties of our situation would at once disappear. The essential conditions of financial strength would be already secured. All we should need would simply be the proper proportion of gold with which to begin redemption. And if we have none too much currency to float on the gold basis, this proportion ought readily to find its way here. Upon that theory there is no reason why it should be steadily flowing abroad. If there were no redundancy of currency to drive it away, there should at least be no difficulty in securing the proportion necessary to resumption. If the currency is not depreciated from excess, there is no reason why the tendency toward equilibrium should constantly draw gold away from us.

Again, if the Senator is correct in supposing that resumption could take place upon the present volume of currency, the embarrassments usually associated with it are wholly imaginary and should not deter us for a moment. There could be no decline of prices with no change in the standard. On the contrary, to preserve the present volume and throw in a large quantity of gold besides, would, according to all laws of currency, increase prices and impart new buoyancy to business. Instead of appreciating the paper to the level of gold, gold would be depreciated to the level of paper. Merchants would not find goods falling upon their hands, nor would the obligations of debtors be augmented. In a word, the difficulties which make the country shrink from resumption would altogether vanish.

It has been well said that the amount of specie needed to maintain specie payments is fixed by a law as certain as any other law. It may vary somewhat in the changing relations

of business and in different countries. In the United States, during sixteen years ending with the close of the year 1857, there was a little less than three dollars of paper circulation for every dollar of specie in the banks. Upon this basis, not to speak of the specie required for daily domestic circulation, there would be needed by the banks for the purpose of resumption about two hundred and thirty million dollars in specie. When we take into consideration, also, that something like fifty million dollars would be required to supply the place of the fractional currency now in use, and a constantly large sum to be kept in the United States Treasury as a means of carrying on the Government, it will be seen alike how difficult it would be to obtain and how much it would add to the volume of money in the country.

There is another consideration to which I have adverted, bearing upon this point. When the currency is thus expanded, the tendency is, even if the ordinary and regular proportion between gold and paper is temporarily secured, to drive the gold abroad. And thus, if the full amount I have indicated were obtained, it would furnish no assurance that we could maintain specie payments. The largest circulation ever known in this country before the war, was in 1857 when it ran up to $214,778,822. The amount of specie reserve then held by the banks was as one dollar to three and seventy-two one hundredths in paper. But this was inadequate, as the history of the times shows, and the banks were forced to suspend. In 1837, the amount of paper money in circulation was $149,185,840. The proportion of specie in the banks to their circulation was as one to three and ninety-seven one hundredths. As in the other case, a collapse ensued, and great disaster succeeded the suspension of specie payments. Following the first-named period the paper circulation declined to $184,000,000, and in the latter to less than $100,000,000, before specie payment could be resumed and maintained. What is the lesson here taught? The country has made great advances, but the laws of finance are unchangeable, and the relative proportions in the adjustment of currency upon a safe and sound basis must be observed now, as heretofore.

The Senator misapprehends when he assumes that a comparison is instituted between the currency of Great Britain and that of the United States, with a view of showing that the volume of the latter should not be larger than the volume of the former. So far as I am concerned, I made no such comparison. I simply compared the currency of Great Britain with itself at different periods. The object was to show that the currency, under healthy conditions, does not increase in proportion to the increase of wealth and population. "Thus," I said, "the total circulation of Great Britain was actually less in 1868 than in 1845, though the wealth of the kingdom had doubled." And here is the answer to what the Senator says about the requirements of our own expanded growth in territory and population. If we admit, as we may, that what is applicable to the compact domain and dense population of Great Britain, is not strictly true of our extended area and sparse settlements, yet the same general principles cover both. The law of money is the same everywhere. Its operations may be affected by incidental circumstances, but its essence is the same. But let me take the Senator's own reasoning. He estimates the amount of currency before the war at $450,000,000, which estimate, although I must regard it as exaggerated, I accept for the sake of the argument. He then says our area has increased a fifth, and our population by nine millions. Well, if the first be made the test it would require a volume of only $540,000,000, and if the second, it would not require more than $600,000,000. And yet in point of fact we have $700,000,000, and the Senator proposes to add to it the whole amount of gold necessary to maintain redemption, thus giving us a volume of nine hundred or a thousand million dollars, or double his own estimate of what existed ten years ago.

The fallacy of these arguments is, that they make no account of the value of the currency. They treat it as something which is needed to the full extent to which it can be absorbed by the country, when in fact it can be absorbed to almost any extent, if its value be disregarded. They ignore the vital and fundamental consideration that currency is a standard of value and a medium of exchange, not a thing of original and intrinsic worth, desirable for itself, and that as its volume increases its value diminishes. They fail to consider that the true test is not the apparent scarcity or absorption of money, but its relation to the one fixed standard. They especially ignore the principle that our currency must be in harmony with that of the world, as it would be adjusted under the natural laws of distribution, before we can return to the common standard of the world. The principle underlying this question has been stated by one of the most distinguished political economists in the following clear and compact form:

> "When a country issues inconvertible paper notes they cannot be exported to other countries in the event of their becoming redundant at home; and whenever, under such circumstances, the exchange with foreign States is depressed below, or the price of bullion rises above its mint price more than the cost of sending coin or bullion abroad, it shows conclusively that too much paper has been issued, and that its value is depreciated from excess."

Now, while I have not the highest hope that we can readjust the debt upon the most favorable terms until we have reached a sound monetary condition, I can support the main features of this bill. It is well to place the authority in the hands of the Secretary. He

should have power to avail himself, in behalf of the nation, of any favoring opportunity which may present itself, though the present bill may be improved, I think, in the manner I have indicated. The success of the plan is desirable not only for the reduction of interest which it would involve, but because it would put an end to the clamor which threatens to violate the public faith, and which tends to impair the public credit.

Mr. President, perhaps I ought to ask pardon of Senators for occupying so much valuable time in this discussion on the 25th of January, and again to-day. But I see the country agitated by this financial controversy. I see it drifting along without adequate effort, as it has seemed to me, to secure safe anchorage or a protecting harbor. I see it left almost to take its own course, not so much because men differ regarding the specific measures proposed, as because they differ regarding the general principles involved. We must, first of all, study the true chart and settle the general direction. With this view, I have dwelt rather upon principles than upon measures. Glancing at what I have said, I repeat that the rescue of the nation from the evils of our vast, depreciated, and inconvertible currency, and its restoration to the specie basis, are urgently required by every vital and wholesome interest; that the determination of the exact amount of currency demanded by the wants of the country is an indefinite and comparatively unimportant problem—inflation, on the one hand, causing such a rise of prices that there would soon be the same stringency as before; contraction, on the other hand, causing such a decline of prices that the smaller volume would entirely suffice; that the volume will adjust itself when we adopt correct principles and start upon the right path; that the true situation is when specie payments may be resumed and maintained; and finally, that this condition is impossible upon our present expanded currency. I have also endeavored to maintain that while the scrupulous observance of the public faith is clearly enjoined upon us, a successful funding scheme, with new guarantees asserted, would tend to this result; and lastly, that the reduction of taxation is highly important to the relief of the country during this period of shrinking values, crippled industry, and inert trade, and that this is not inconsistent with adequate present revenue and payment of the national debt in the course of fifty years. Such, it seems to me, are the principles essential in the steps we take toward a sound and healthy financial life.

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TITLE